

The Deutsche Bundesbank has admitted in writing that banks create credit out of thin air.

Most people think that banks lend solely from their base of deposits. Some also know that with fractional reserve banking, they can loan out many times more than they actually have in reserves.

But very few people – with the exception of those in the banking industry and financial experts – know where credit really comes from.

Germany's central bank – the Deutsche Bundesbank (German for German Federal Bank) – has admitted in writing that banks create credit out of thin air.

As the Bundesbank [states](#) in a publication entitled “Money and Monetary Policy” (pages 88-93; translation provided by Google translate, but German speaker and economic writer Festan von Geldern confirmed the basic translation):

4.4 Creation of the banks money

Money is created by “money creation”. Both [central banks] and private commercial banks can create money. In the euro monetary system [money creation] arises mainly through the granting of loans, as well as the fact that central banks or commercial banks to buy assets such as gold, foreign currencies, real estate or securities. If the central bank granted a loan from a commercial bank and crediting the amount in the account of the bank at the central bank, created “central bank money.”

Money creation by commercial banks

The commercial banks can create money itself, the so-called bank money. The money creation process through which commercial banks can be explained by the related postings: If a commercial bank to a customer a loan, they booked in its balance sheet as an asset against a loan receivable the client – for example, 100,000. At the same time, the bank writes down the customer's checking account, which is run on the liabilities of the bank's balance sheet, 100,000 euros good. This credit increases the deposits of customers on its current account – it creates deposit money, which increases the money supply.

In other words, money is created as book-entry by purchasing assets or entering credits on the left side of the balance-sheet and corresponding deposits on the right side. In other words, credit is [created out of thin air](#).